

NSC BRIEFING

~~CONFIDENTIAL~~

12 March 1957

BACKGROUND--TURKEY

- I. Turks, despite serious financial plight, have just passed largest-ever national budget (\$1.5 billion).
 - A. Thus, Gov't still going ahead with ambitious plans for national build-up, but dragging feet on revenue measures to pay for it.
 - B. Practical politics underlies opposition to US-recommended reforms.
 1. Agricultural income tax suggested, but ruling Democratic Party's strength comes mainly from farmers (80% of Turkish population): this reform unlikely to occur.
 2. Industry already in trouble for lack of vital imports (due foreign exchange shortage), but Gov't has jumped investment allocation in new budget by 33%.
 3. US-recommended devaluation of Lira (legal 2.8 to \$1, but 11 to \$1 at black rate) also opposed on political grounds.
 - C. As final complication to recommended reforms, this is pre-election year in Turkey.
- II. Despite these economic disputes with US, Turkey stands firmly with West.
 - A. Rebuffing Soviet approaches consistently.
 - B. Turks see selves as key power in Baghdad Pact (and wish US would join).
 - C. Also hope for major role in implementation US Middle East policy.
 1. Already approaching US for advanced weapons, latest planes & radar.
 2. Have invited US to station air units in Turkey.

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BACKGROUND--TURKEY

- I. On 28 Feb, the Turkish national assembly (in which Premier Menderes' party holds 84% of seats) approved the largest annual budget in Turkish history--nearly \$1.5 billion.
 - A. Action comes at a time when Turkey's long-range economic prospects are favorable, but serious present imbalances threaten the nation's short-range economic stability.
 1. Total Turkish foreign debt is over \$1.1 billion;
 2. Total commercial arrears stand at about \$220 million;
 3. Total trade deficit in 1956 was \$102.4 million.
 - B. Turkey's present financial woes derive from the Government's strenuous efforts to build a modern economy regardless of costs.
 - C. Neither Menderes nor his Democratic Party shows any intention of accompanying this construction effort with adequate revenue measures, since such revenue-raising would strike at their strongest base of political support.
 1. The overwhelming strength of Democratic Party derives from the rural areas and Turkey's Government-subsidized 60% agricultural population.
 2. One US recommendation to the Turks is institution of a tax on agricultural income.
 3. Such a reform is most unlikely to be accepted in the near future, and especially in the present pre-election year.
 - D. As a measure of Turkish determination to press on, the new budget provides for a 33% increase in investment outlay, the rural areas in which the Turkish economy is already over-extended.

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- 1. Yet, Turkish industrial production is already suffering badly from the inability to import essential parts and raw materials, because of foreign exchange shortages.**
- E. Another key US recommendation to the Turks is an across-the-board devaluation of the lira (officially 2.8 to the dollar, but sold on the black market at 11 to the dollar).**
- 1. Menderes and co. are also fighting this reform for political reasons.**
- II. Despite these economic points of dispute with the US, Turkey continues to be firmly committed to the West.**
- A. The Government continues to rebuff Soviet overtures and blandishments.**
- B. The Turks regard themselves as leaders in development of the Northern Tier defense system and continue to insist on the necessity of US membership in the Baghdad Pact.**
- C. The Turks regard themselves as superior to other Middle East countries and see Turkey as the logical medium for propagation of US policy in the area.**
- D. Ankara has indicated that it expects great things of the Eisenhower Doctrine and has already made overtures regarding advanced weapons, high-performance aircraft, improved radar, and the stationing of US air units in Turkey.**

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